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CENTRAL INTELLIGENCE AGENCY  
Office of Current Intelligence  
18 October 1963

## CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: The Impact of Punitive Suspension of US  
Economic Assistance in Latin American  
Countries\*

1. US aid to Latin America under the Alliance for Progress--about 1.50 billion dollars over the past two years--is designed less for immediate impact than for creating by 1970 the conditions for rapid economic development. The curtailment of typical aid projects--highway construction, technical training, low-cost housing, and other "infrastructure" programs--would therefore not necessarily be critical for short-term economic prospects.

2. In some cases, however, US funds have been helping to shore up Latin American economies. The amount involved is not large by comparison with overall GNP figures, but it has been important for tiding a country like Brazil over balance-of-payment difficulties and averting default on international obligations. The economic squeeze resulting from curtailment of such aid is now a factor affecting the political attitudes and stability of the Goulart government.

3. Curtailment of assistance over an extended period of time would have a "multiplier" effect beyond the amount of US Government funds left unexpended. It would, for example, presumably affect the investment guaranty program administered by AID to encourage US private personal and corporate investment abroad. Since the beginning of the year, AID has received guarantee applications to cover nearly one billion dollars of investment in Latin America. Apart from

\*This memorandum has been coordinated with ORR and ONE

USAID, State reviews completed

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the US investment guaranty program, financing by the World Bank and other international institutions, along with an indeterminate amount of non-US private investment, would be discouraged by any shrinking of US aid.

4. With the unique exception of Cuba, there is no good example of a Latin American country that has been cut off from Alliance for Progress aid for any extended period of time. The durability of Duvalier in Haiti and Goulart in Brazil attests to the limited effectiveness of aid suspensions or reductions over the short run. Suspension of aid is not the equivalent of a quick knock-out punch but is rather part of a sequence of blows in a contest that has to go many rounds.

5. A related point is that Latin Americans do not find a lasting US policy of aid suspension to be completely credible. In the Peruvian experience described in the appendix, aid was restored within months after a military coup had led to its suspension. The historical record weakens the political leverage that the US can apply by cutting off assistance, since the chances for a reinstituted aid program seem reasonably promising.

6. The three countries examined in the appendix illustrate some of the political effects of US aid retrenchment--such as the possibility of countercoups and the opportunities at least in some countries for enlarging bloc political and economic inroads. However, generalizations about the effects in Latin America of punitive suspensions of US aid are unjustified. Some countries like Haiti are geared to subsistence-level living standards which are not likely to fall much lower than they already are. For more advanced countries like Brazil, US aid policies affecting such matters as the adequacy of Brazilian financial reserves are important. The one flat statement we would make is that in no case has cessation of US aid been followed by quick collapse of the regime. Given enough time, withholding of US aid would almost certainly force Latin American

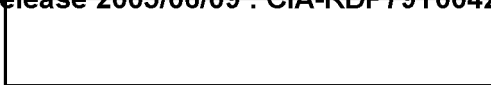
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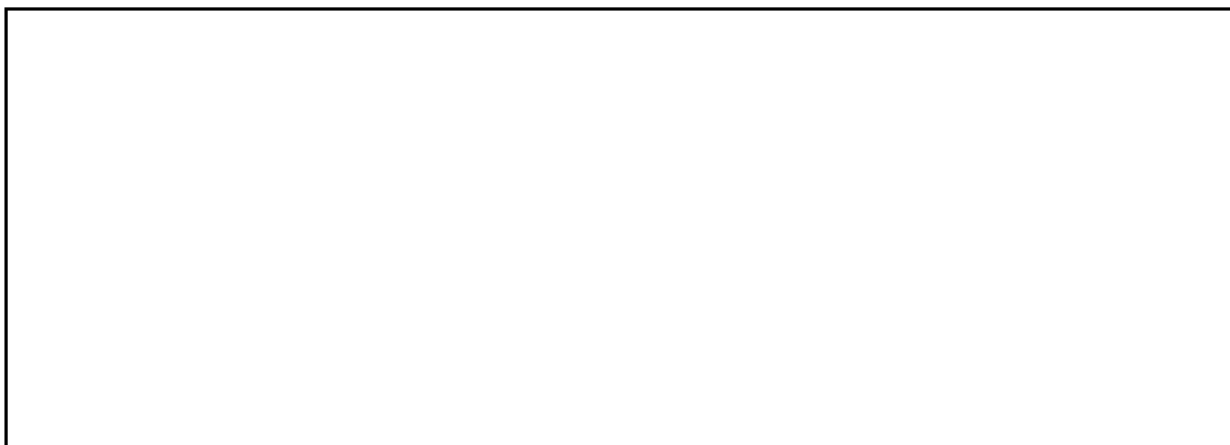
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rethinking about prospects for economic development. It would also entail considerable belt-tightening, and in a case like Brazil's, could well generate a serious financial crisis with attendant political repercussions.



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PERU - A CASE HISTORY

1. Prior to the coup d'etat on 18 July 1962 in which a military junta overthrew the constitutional regime, US Government economic assistance to Peru was programmed at approximately \$71 million under the Alliance for Progress for the balance of the calendar year. This sum was exclusive of technical and "humanitarian" aid programs, such as PL-480 and the Peace Corps. The amount of military assistance for the next fiscal year was at the time still under review in Washington, but some 9.6 million dollars in materiel had been scheduled for shipment to Peru under a previous authorization.
2. The overthrow of the Manuel Prado regime, although precipitated by the results of the national elections of June 1962, was an outgrowth of the military's long rankling and bitter hatred of the leftist but anti-Communist American Popular Revolutionary Alliance (APRA) headed by Haya de la Torre. When Haya de la Torre emerged as the winner in a three-cornered presidential fight even though he did not gain the constitutionally necessary one-third margin of the popular vote, the armed forces leaders acted. They apparently feared that the new congress, which was to meet in late July to settle the presidential race, could be controlled by a coalition which would give APRA a major voice in government. The coup occurred in spite of the fact that as early as November 1961 the US Ambassador personally warned a contingent of high military leaders that the US would suspend diplomatic relations and economic assistance if the armed forces refused to accept the outcome of the elections. The warning was made repeatedly during the intervening months, but the military leaders chose to ignore the warning.
3. In response to the military coup, the US suspended diplomatic relations along with its economic and military assistance programs on 18 July. Diplomatic relations were resumed on 17 August, but the economic and military assistance programs were not completely restored until October 1962.
4. The impact of the US aid suspension on the Peruvian economy probably was slight. There apparently was little loss of confidence on the

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part of Peruvian businessmen, and no perceptible drop in economic production occurred--possibly in part because the Peruvian business community estimated that suspension of US assistance would be short-lived.

5. US suspension of aid may have had a somewhat greater political impact on the junta leaders. They clearly were pained when the US refused to resume normal diplomatic relations, but they could not have been surprised at either this action or the abrupt suspension of economic and military aid. Indeed the US Ambassador's clear advance warning that US aid would be suspended may have prompted the junta leader, General Ricardo-Godoy, only a day after the coup, to promise new elections within a year.

6. By and large it would seem that Peruvian considerations, rather than US policy, largely dictated the responsible conduct of the junta, which lived up to the promise to hold free elections in June 1963 and subsequently handed over the government to a popularly elected civilian regime on 18 July. It quickly became obvious that the motivating factor behind the coup was not avarice on the part of the junta leaders. Similarly they demonstrated no desire to establish a traditional military dictatorship. The junta was apparently motivated almost solely by a hatred and fear of an APRA-dominated government which could be expected to try to minimize the traditional role of the military in the country.

7. Throughout their rule the junta members displayed a sincere desire to return the government to responsible, constructive, but non-APRA civilian government, at the earliest possible moment. In addition, the junta was interested in laying the groundwork for long-needed social and economic reforms in Peru, and in November decreed the basis for the initiation of a land reform program. The junta may also have been influenced toward moderation by an influential group of young officers who, unlike their chiefs, were middle class in origin and did not share in the interests of the oligarchy. These "Naserites,"

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while never positively identified, were nationalist-minded, and were interested in reforms and in re-turning to constitutional processes of government.

8. In summary, in view of the relatively short period of suspension of normal US diplomatic and economic relations--probably cut even shorter by considerations relative to the October 1962 Cuban crisis--it would seem that the aid disruption was not a principal factor responsible for the return to constitutional government in Peru, although announcement of the suspension may have contributed to an early declaration of intentions by the junta. Indeed, it would seem that purely Peruvian factors, especially the character of the junta members themselves, were largely responsible for the orderly return to civilian government. There is no reason, however, to assume that the Peruvian experience might be analagous to any present or future military coups d'etat in other Latin American countries.

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DOMINICAN REPUBLIC

1. During its brief seven-month tenure prior to the 25 September coup, the government of Dominican President Juan Bosch had gradually shifted from an attitude of professed antipathy toward one of heavy reliance on US economic assistance. In addition to authorizations of over \$36 million from AID and IDB for FY 1963, the government had requested an emergency loan of \$17 million which was under study at the time of the coup. The Dominican government was also purchasing large amounts of rice under PL 480 to meet severe and growing food shortages. Apart from some PL 480 and a peace corps mission these programs have been suspended.

2. The US economic assistance program in the Dominican Republic has been focused on long range industrial and agricultural development, with some additional concentration on programs in education and low cost housing. Approximately \$4 million in military assistance was programmed for FY 1963, although only slightly more than half of this amount had been disbursed at the time of the coup. The military Assistance Program was geared toward improving the country's capabilities to withstand possible Castro-Communist aggression and toward civic action projects. Most Dominican military equipment is of US manufacture--except some European-made aircraft--and the US has provided replacement parts. In addition to military training for Dominican officers, considerable progress in training the large Dominican police force had been made under the AID public safety program. These developments had substantially increased internal security capabilities, but they are still only minimal.

3. In order for the Dominican Republic to attain any significant rate of economic growth, large infusions of foreign capital and technical assistance would be required. Bosch was successful in negotiating a \$150 million development loan from private European sources, although the terms were unfavorable and no funds have yet been received. Also, France has shown some interest in long range development projects and might now be contacted if US aid were suspended indefinitely. However, Dominican political instability, the problems of servicing the existing

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foreign debt that has reached an all-time high, and general European disinterest in Latin America would be likely to deter most West European nations from providing extensive assistance. The militant anti-Communism of the present regime's military backers precludes its seeking aid from the Sino-Soviet bloc or Cuba.

4. Lacking US support, the ruling triumvirate faces uncertain prospects. Efforts to economize will be frustrated by corruption among leading civil and military officials, by opposition to reduction in armed forces and police expenditures, and by unrealistic popular expectations of popular advance. In addition to lack of funds to pay military salaries and meet other government expenses, the regime faces food shortages before the end of this year, if US rice sales are not continued. On the other hand, determined efforts to reduce inefficiency in sugar production--the number one source of foreign exchange--coupled with effective distribution of the former Trujillo properties, could give the regime at least a temporary breathing spell.

5. In the immediate aftermath of the coup, the conservative backers of the triumvirate have been somewhat surprised and angered by the US refusal to recognize and support their regime. Other influential business and professional elements who disliked both Bosch and the coup display considerable anxiety and talk of the need to reach an early accommodation with the US. Leaders of the moderate leftist political parties--which polled 70 percent of the vote in the 1962 election--are encouraged by the US position. However, their attitude may soon change if the junta remains in power.

6. A prolonged absence of US aid, coupled with economic deterioration and political instability, could be exploited by extreme leftists to generate anti-US sentiment. In this context, the withholding of US aid over time could be a two-edged instrument in the Dominican Republic, encouraging the polarization of forces into extreme right and extreme left. The vulnerability of the populace to extreme leftist appeals would be heightened by the fact that unemployment, food shortages, etc.--which would be attributed to US aid cuts--would strike hardest among lower class Dominicans.

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7. The longer the triumvirate remains isolated, the greater becomes the threat of a counter coup against it. The extreme leftists seem to have been making gains during the past few days--gains that might increase markedly should a student be killed in demonstrations and present the left with a martyr. Then, too, the failure of the regime to arrest key Castro-Communist leaders adds to this danger. Meanwhile, the extreme right military might use any gains by the left as a pretext to oust the civilian triumvirate. This could result in a bloody repressive military dictatorship.

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CHILE\*

1. There is as yet no parallel in Chile to the Peruvian experience, where the overthrow of constitutional government led to the suspension of US aid. The contingency of aid suspension could become reality, however, if Salvador Allende, candidate of the Communist-dominated Popular Action Front, won the presidential election next year and embarked on a fidelista policy that included expropriation of US investments totaling \$800 million. Alternatively, a military reaction against Allende might raise questions of US aid to a regime that had overthrown the constitutional government.

2. US aid to Chile this year is programmed at \$75 million, not a large figure by comparison with the government's domestic expenditures for development, but fairly important in view of Chile's limited foreign exchange holdings and pressures on the country's balance of payments. Inflation and payments deficits have discouraged private savings and investment, while stimulating capital flight and speculation.

3. The psychological impact in Chile of US aid has been limited, and popular reaction to withdrawal of aid might therefore not be decisive at first. However, the withdrawal of US aid could contribute to capital flight, deficit financing, new inflationary pressures, and deterioration of the investment climate. The Chilean Government would be forced to draw down reserves and seek other Free World sources of assistance. Chile obtained loans from Britain and Germany this year totaling over \$15 million. Japanese and Canadian interests have made some new investments in the country. Bloc aid

\*Chile has been chosen as a hypothetical example, not because we consider that the events depicted here are necessarily likely to take place, but rather because it is possible they could. If power should pass to Allende and the Communist-dominated Popular Action Front, the US could be confronted with the decision of whether or not to suspend aid to a constitutionally legitimate government.

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would also be accepted. There is a persistent popular belief in the country that the Communist countries could absorb large amounts of Chilean copper; Allende would probably hope to capitalize on his alliance with the domestic Communists to negotiate favorable terms for copper sales to the bloc.

4. Chile is one of the few Latin American countries with a long-term plan of economic development. The fairly widespread mystique of development in the country makes US aid an instrument of important, even though not decisive, leverage. Rather than precipitate a suspension of US aid, an Allende or other left government, particularly if it were experiencing heavy weather with its program, might seek an understanding with center parties. A cautious course of understanding with the center would be promoted by the consideration that the Communists and Socialists would not amass sufficient congressional support to govern constitutionally by themselves and by the apprehension that certain measures would provoke a coup by the military in alliance with the political opposition.

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